

Message Text

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TO USDEL SECRETARY IMMEDIATE

INFO AMEMBASSY BRASILIA IMMEDIATE

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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EXDIS

E.O. 11652: GDS

TAGS :ETRD,EAGR,OVIP(KISSINGER, HENRY A),OTRA, MX, BR

SUBJEC : U.S.-BRAZIL TRADE ISSUES

1. FOLLOWING RECENT INFORMATION ON U.S.-BRAZIL TRADE ISSUES
IS PROVIDED AS AN ADDENDUM TO QUOTE SECTION III. 2. TRADE
UNQUOTE OF SECRETARY'S BRIEFING MEMORANDUM ON BRAZIL.

2.A. SOYBEAN OIL:UNDER STRONG PRESSURE FROM U.S. SOYBEAN
PROCESSORS, THE U.S. DEPARTMENT OF AGRICULTURE HAS PRE-
PARED A STUDY OF GOB EXPORT INCENTIVES FOR SOYBEAN PRODUCTS.
THE STUDY, WHICH WILL BE MADE AVAILABLE TO THE AGRICULTURAL
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TECHNICAL ADVISORY COMMITTEE AT ITS FEB. 19 MEETING,

INDICATES THAT SOYBEAN OIL EXPORTS MAY BE RECEIVING A 14 PERCENT GOB EXPORT SUBSIDY. ON THE BASIS OF THIS REPORT, THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION MAY FILE IN VERY NEAR FUTURE A COMPLAINT UNDER SECTION 301 OF THE TRADE ACT, ALLEGING UNFAIR COMPETITION TO U.S. SOYBEAN OIL EXPORTS TO THIRD COUNTRY MARKETS. (THE U.S. DOES NOT IMPORT BRAZILIAN SOYBEAN OIL.) THE RESULT COULD BE RETALIATORY U.S. TRADE RESTRICTIONS ON BRAZILIAN EXPORTS. THIS CASE, WHICH FORMS PART OF BASIC POLICY DIFFERENCE BETWEEN U.S. AND BRAZIL ON EXPORT SUBSIDIES, ASSUMES GREATER THAN USUAL PROPORTIONS AND SENSITIVITY BECAUSE OF GREAT IMPORTANCE OF EXPORT OF SOYBEAN PRODUCTS TO BOTH COUNTRIES.

B. IN RECENT YEARS BRAZIL HAS INVESTED HEAVILY IN THIS SECTOR, AND IT IS NOW SECOND ONLY TO U.S. AS MAJOR EXPORTER OF SOYBEANS AND SOYBEAN PRODUCTS, EXPORTING 268,000 TONS OF SOY OIL IN 1975, U.S. SOY OIL EXPORTS IN 1975 WERE 356,000 TONS, LESS THAN HALF THE 1974 TOTAL, WHICH ACCOUNTS FOR MUCH OF THE U.S. INDUSTRY'S PRESSURE TO ACT AGAINST BRAZIL.

C. IN VIEW OF UNFORTUNATE TIMING, DEPARTMENT SOUGHT TO PERSUADE USDA TO POSTPONE SUBMISSION OF REPORT. POSTPONE-
MENT UNFEASIBLE, HOWEVER, BECAUSE OF PRESSURE FROM ADVISORY COMMITTEE (WHICH IS MADE UP OF OIL INDUSTRY REPRESENTATIVES).

D. USDA HAS ASSURED US THE REPORT WILL REMAIN CONFIDENTIAL UNTIL WEEK OF FEBRUARY 23. HOWEVER, IN VIEW OF POSSIBILITY OF LEAK WHILE YOU ARE IN BRAZIL AND IN INTEREST OF CONTINUING FRANK CONSULTATION WITH GOB ON TRADE ISSUES, EMBASSY BRASILIA HAS BEEN INSTRUCTED TO PROVIDE GOB WORKING LEVEL COPY OF THE REPORT AND HAS REQUESTED ITS COMMENTS.

3. U.S. CUSTOMS INVESTIGATION:

A. BRAZILIAN FOREIGN MINISTRY OFFICIALS HAVE BRIEFED THE PRESS ON A U.S. REQUEST LAST MONTH FOR GOB PERMISSION TO CONFIDENTIAL

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CARRY OUT A ROUTINE CUSTOMS INVESTIGATION. THE BRIEFING, WHICH APPARENTLY PUT THE REQUEST IN THE CONTEXT OF YOUR VISIT, HAS RESULTED IN PROMINENT PRESS COVERAGE MISREPRESENTING THE INVESTIGATION AS U.S. EFFORT TO COLLECT INFORMATION FOR FURTHER TRADE ACTIONS AGAINST BRAZIL. THIS ESCALATION APPEARS TO BE A DELIBERATE MOVE REFLECTING INTENSIFIED BRAZILIAN IRRITATION ON TRADE MATTERS AND SIGNALING A TOUGHENING GOB STANCE TO THE BRAZILIAN PUBLIC

AND THE USG.

B. IN MAKING THE REQUEST, EMBASSY AND U.S. CUSTOMS OFFICIALS EXPLAINED THAT THE INVESTIGATION WOULD INVOLVE VISITS TO BRAZILIAN FIRMS TO OBTAIN DATA ON THE ACTUAL MARKET VALUE OF CERTAIN SHIPMENTS ALREADY MADE TO THE U.S. TO DETERMINE THE CORRECT CUSTOMS VALUE OF THE GOODS IN QUESTION. A FEW OF THE CASES INVOLVE SUSPECTED FRAUD. THE GOB REACTION HAS BEEN NEGATIVE FROM THE OUTSET BECAUSE OF SUSPICIONS THAT THE INFORMATION OBTAINED MIGHT BE USED IN COUNTERVAILING DUTY ACTIONS AGAINST BRAZIL. OUR OFFER TO FOREGO INQUIRIES CONCERNING SENSITIVE ITEMS (LEATHER HANDBAGS AND SHOES) AND OUR SUGGESTION THAT BRAZILIAN OFFICIALS ACCOMPANY THE CUSTOMS REPRESENTATIVE DURING THE INQUIRIES FAILED TO REASSURE THE GOB.

C. THE EMBASSY WILL DELIVER AS SOON AS POSSIBLE A LETTER FROM SECRETARY SIMON TO FINANCE MINISTER SIMONSEN STATING THAT HE WAS UNAWARE OF THE REQUEST AND UNDERSTOOD THE DIFFICULTIES IT POSED IN VIEW OF PENDING U.S. TRADE ACTIONS. HE ADDED THAT, ALTHOUGH THE INVESTIGATION IS UNRELATED TO CVD AND ANTI-DUMPING CASES, HE HAS ORDERED THE INQUIRY DEFERRED UNTIL ARRANGEMENTS CAN BE MADE BETWEEN TREASURY AND THE BRAZILIAN EMBASSY IN WASHINGTON.

4. GOB IMPORT RESTRICTIONS AND THE GATT:

A. AS PART OF ITS EFFORT TO REDUCE BRAZIL'S MASSIVE CURRENT ACCOUNT DEFICIT, IN DECEMBER 1975 AND EARLIER THIS MONTH THE GOB ANNOUNCED A SERIES OF STRINGENT IMPORT REDUCTION MEASURES WHICH ARE HAVING A HEAVY IMPACT ON U.S. EXPORTS. ON FEBRUARY 16, OUR GATT DELEGATION INFORMALLY REQUESTED THAT THE GOB DELEGATION VOLUNTARILY INFORM THE

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GATT COUNCIL THAT THE GOB WOULD NOTIFY THE GATT OF RECENT MEASURES IT HAD TAKEN TO RESTRAIN IMPORTS. AFTER CONSULTATIONS WITH THEIR FOREIGN MINISTRY, THE GOB DELEGATION DECLINED OUR REQUEST BUT INFORMED US THAT THEY HAD NO OBJECTION TO OUR REQUESTING THAT BRAZIL NOTIFY. WE DID SO. THEY AGREED TO NOTIFY SHORTLY AND SAID THEY WERE PREPARED TO CONSULT FULLY ON THE RESTRICTIONS AT APRIL MEETING OF THE GATT BALANCE OF PAYMENT COMMITTEE.

5. TALKING POINTS

A. SOYBEANS (IF RAISED BY BRAZILIANS)

-- U.S. EXPORTS OF SOYBEAN OIL WERE DECREASED BY MORE THAN ONE-HALF DURING 1975 AND MARKET PREDICTIONS FOR 1976 ARE

NOT ENCOURAGING.

-- OUR EXPORTERS BELIEVE THAT THEY ARE FACING UNFAIR COMPETITION IN OVERSEAS MARKETS AND ASKED THAT THE GOVERNMENT CONDUCT A STUDY OF BRAZILIAN EXPORT INCENTIVES. AFTER MORE THAN SIX MONTHS OF STUDY, THE DEPARTMENT OF AGRICULTURE HAS PREPARED A PRELIMINARY REPORT; A FINAL REPORT WILL BE PUBLISHED NEXT WEEK.

-- WE WILL WELCOME YOUR COMMENTS ON THE ACCURACY OF THE USDA REPORT, WHICH I UNDERSTAND THE EMBASSY HAS PROVIDED YOUR GOVERNMENT.

-- OUR PRELIMINARY ASSESSMENT IS THAT WE MAY FACE SOME PROBLEMS ON THIS ISSUE STEMMING BASICALLY FROM THE TRADE LEGISLATION NOW IN FORCE IN EACH OF OUR COUNTRIES RELATED TO THE SUBSIDY/COUNTERVAILING DUTY QUESTION.

-- IN OUR VIEW THE SOYBEAN OIL CASE IS PART OF THE OVERALL PROBLEM CREATED FOR US BY THE GOB'S EXPORT SUBSIDY SYSTEM.

-- OUR EXPORTERS AND PRESENT U.S. TRADE POLICY STRONGLY OPPOSE UNFAIR COMPETITION FROM IMPORTS SUBSIDIZED BY FOREIGN GOVERNMENTS.

-- DESPITE MY GOVERNMENT'S BEST WISHES FOR BRAZIL'S
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ECONOMIC SUCCESS, I CAN OFFER NO ENCOURAGEMENT THAT THERE WILL BE A MODIFICATION IN U.S. TRADE LEGISLATION WITHOUT THE QUID PRO QUO OF A REALISTIC INTERNATIONAL CODE GOVERNING SUBSIDIES/COUNTERVAILING DUTIES. THE SUPPORT BY THE PUBLIC AND BY CONGRESS NECESSARY FOR REVISION WILL SIMPLY NOT BE THERE.

B. U.S. CUSTOMS INVESTIGATION (IF RAISED BY BRAZILIANS):

-- WHILE I UNDERSTAND WHY THE GOB MIGHT HAVE DIFFICULTY APPROVING THE PROPOSED INVESTIGATION, I REGRET THAT THE PRESS WAS PROVIDED MISLEADING INFORMATION AS TO THE NATURE AND PURPOSE OF OUR REQUEST.

-- IN VIEW OF YOUR OBJECTIONS, I UNDERSTAND THAT SECRETARY SIMON HAS ADVISED FINANCE MINISTER SIMONSEN THAT THE MATTER HAS BEEN DEFERRED FOR THE PRESENT.

C. BRAZILIAN IMPORT RESTRICTIONS (IF ASKED):

-- WE SYMPATHIZE FULLY WITH BRAZIL'S CURRENT B.O.P. PROBLEMS AND NOTE THAT YOU HAVE TAKEN STRINGENT MEASURES TO

REDUCE YOUR DEFICIT ON CURRENT ACCOUNT.

-- WE RECOGNIZE THAT YOU MAY BE JUSTIFIED IN TAKING SOME TEMPORARY CORRECTIVE STEPS WHICH MAY ADVERSELY AFFECT YOUR TRADING PARTNERS, INCLUDING OURSELVES.

-- WE LOOK FORWARD TO CONSULTATIONS ON THIS SUBJECT IN THE GATT IN APRIL.

6. FOLLOWING IS ADDITIONAL TALKING POINT WHICH SHOULD BE MADE, POSSIBLY IN CONTEXT OF SOYBEAN DISCUSSION BUT OTHERWISE WITH TRADE POINTS IN BRIEFING MEMO ON BRAZIL:

-- BRAZIL AND U.S. AGREE ON IMPORTANCE OF DIFFERENTIAL TREATMENT FOR LDC'S IN TRADE RULES AND NEGOTIATIONS. WE FEEL ALSO, HOWEVER, THAT MORE ADVANCED LDC'S, SUCH AS BRAZIL, SHOULD BE PREPARED TO GIVE UP DIFFERENTIAL TREATMENT AND ACCEPT RESPONSIBILITIES OF DC'S AS THEIR FURTHER DEVELOPMENT PROGRESS WARRANTS.

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7. WITH REGARD TO SECOND PARA OF SAME SECTION OF THE BRIEFING MEMORANDUM ON BRAZIL, SECRETARY SIMON HAS ASSURED FINANCE MINISTER SIMONSEN IN A LETTER DATED JANUARY 28 THAT NO FINAL ACTION WILL BE TAKEN TO MODIFY THE EXISTING COUNTERVAILING DUTIES ON BRAZILIAN SHOE EXPORTS UNTIL HE HAS DISCUSSED THE MATTER PERSONALLY WITH SIMONSEN DURING THE SECRETARY'S PLANNED TRIP TO BRAZIL IN MAY. SECRETARY SIMON HAS INFORMED SIMONSEN, HOWEVER, THAT TREASURY WILL HAVE TO UNDERTAKE A CURSORY INVESTIGATION OF CURRENT GOB SUBSIDIES ON SHOES, BUT NOT UNTIL AFTER THE FEBRUARY 20 ESCAPE CLAUSE RULING ON SHOES BY THE INTERNATIONAL TRADE COMMISSION.

8. IN READING THE BRIEFING MEMORANDUM ON THE IMPENDING ITC RULING ON SHOES, SECRETARY KISSINGER ASKED IF IT COULD BE POSTPONED. A POSTPONEMENT IS IMPOSSIBLE SINCE FEBRUARY 20 IS THE DEADLINE MANDATED BY SECTION 201 OF THE TRADE ACT OF 1974. INGERSOLL

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